South Carolina

Business Incentives

South Carolina Department of Commerce

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Executive Summary

Aggressive Incentives Reward Industries for Growth

South Carolina has a reputation as a superior business location, largely due to an exceptional economic climate that helps companies hold down operating costs and increase their return on investment. In addition, South Carolina's performance-based tax incentives reward companies for job creation and investment. The state's probusiness policies are demonstrated by the following:

- Numerous ways to potentially eliminate your entire corporate income taxes;
- A wide range of sales tax exemptions that will reduce start-up costs as well as annual operating costs;
- Property tax incentives that can be tailored to meet your company's needs; and,
- Special discretionary incentives at the local and state level, used to meet specific needs of individual companies on a case-by-case basis.

The following pages describe incentives available to qualified companies. Please note that only the South Carolina Department of Revenue and Taxation (Department of Revenue), local city and county councils, and the South Carolina Coordinating Council for Economic Development (Coordinating Council) have the authority to offer definitive tax commitments under South Carolina law. This booklet is provided to illustrate South Carolina's probusiness environment and to assist a company in their evaluation of South Carolina.

South Carolina's Corporate Income Tax & Incentives

Corporate Income Tax

South Carolina’s positive business environment starts with its corporate income tax structure. Businesses locating in South Carolina will benefit from:

- One of the lowest corporate income tax rates in the Southeast;
- A business friendly method to determine income subject to the state’s corporate income tax rate; and
- Numerous credits and methods to reduce and eliminate corporate income tax liability.

In South Carolina, businesses are only taxed on the portion of income derived from their in-state operations. The process for determining the taxable income in South Carolina is described below.

- ***Allocated Income:*** Certain corporate income is allocated to the corporation for South Carolina tax purposes before apportionment is applied, including interest, dividends, royalties, rents, property sale gains and losses, and personal services income associated with the South Carolina facility.

- ***Apportioned Income*****:** South Carolina's apportionment formula is based upon the Uniform Division of Income for Tax Purpose Act (UDITPA), which has been adopted by the majority of the states. Corporate income is apportioned based upon a three-factor formula with double-weighted sales. The factors of payroll, property, and sales, with sales being double-weighted, are added together and divided by four (4). Once the ratio is determined it is then applied to the to the corporation’s total income to determine the amount of income attributed to South Carolina operations.

The following shows the corporate income tax liability for a company based on the following assumptions.

1.	Income	$10,000,000
2.	Property in SC	50%
3.	Payroll in SC	50%
4.	Sales in SC (double-weighted)	10%

Based on those assumptions, the apportionment formula is:

50% + 50% + 10% + 10% = 120%

120% / 4 = 30%

30% = Amount of income apportioned to SC

If 30% of the company's income is derived from its South Carolina operations, then the company will owe $150,000 in corporate income taxes before credits.

($10,000,000 X 0.30) X 5% = $150,000

In addition, South Carolina allows businesses a 15-year carry forward for net operating losses.

Corporate License Fee (Franchise Tax)

All corporations must pay an annual fee to the Department of Revenue. The rate is one mill per dollar ($0.001) of a proportion of total paid-in-capital and paid-in-surplus, plus $15. Earned surplus (retained earnings) is not included in the base when calculating this tax. For corporations doing business outside the state, the license fee is determined by apportionment—the same way South Carolina corporate income tax is computed. The minimum corporate license fee is $25.

Corporate Income Tax Moratorium

Any company with at least 90 percent of its total South Carolina investment in the following counties that creates 100 new jobs in one of those counties is eligible for a 10-year corporate income tax moratorium. If the company creates 200 net new jobs within the 5-year time period, the moratorium is extended to 15 years. If it is an existing industry, the moratorium is applied to the increase in tax liability directly attributable to the expansion. The company has 5 years in which to create the jobs.

The counties listed below currently qualify for this incentive.

Allendale	Marion	Union
Chester	Marlboro	Williamsburg
Fairfield	McCormick	

Corporate Income Tax Credits

In addition to a low corporate income tax rate, a favorable formula for determining the income subject to that rate, and a moratorium for companies locating in distressed areas, South Carolina provides a myriad of credits that in some cases can completely eliminate a company's corporate income tax liability for up to 10 years.

Jobs Tax Credits

The Jobs Tax Credit is a valuable financial incentive that rewards new and expanding companies for creating jobs in South Carolina. In order to qualify, companies must create and maintain a certain number of net new jobs in a taxable year. The number of new jobs is calculated as the increase in the average monthly employment from one year to the next.

The following types of businesses qualify for the Jobs Tax Credit.

- Manufacturing and processing, warehousing and distribution, research and development, and qualifying technology intensive facilities must create 10 net new jobs.

- Corporate office facilities housing a majority of the headquarters functions must create 10 net new jobs.

- Tourism-related companies must create 10 net new jobs, with the exception of hotels and motels, which must create 20 net new jobs.

- Qualified service-related facilities must meet the following criteria.

    - ♦ In a Tier 1 or 2 County, service facilities must create 10 net new jobs to qualify.

    - ♦ In a Tier 3, 4, or 5 County, service facilities must create:

        - 250 new jobs;
        - 125 jobs with an average salary 1.5 times the county's per capita income;
        - 75 jobs with an average salary 2 times the county's per capita income; or
        - 30 jobs with an average salary 2.5 times the county's per capita income.

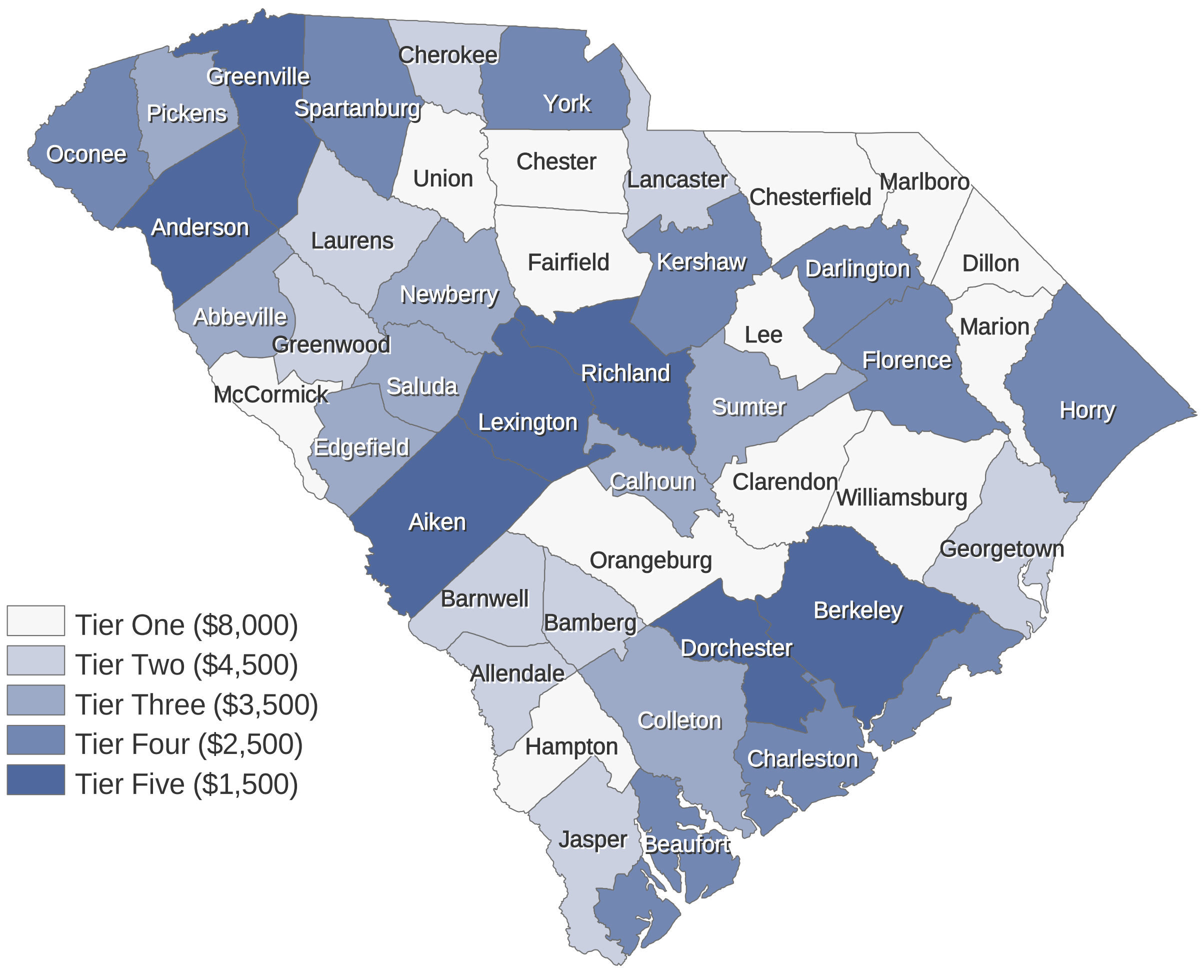
The credit value ranges from $1,500 to $8,000 per net new job for five years, depending on the county's development tier.

A county may also join with another county to form a "multi-county industrial park." Under this arrangement, a county agrees to share the property taxes with a “partner” county. This partnership raises the value of the credits by $1,000 per job, meaning credits from $2,500 to $9,000 per job may be available for qualifying companies.

The credit is available for a five-year period beginning with Year 2 (Year 1 is used to establish the created job levels.) The credit can be applied against corporate income tax or premium tax, but cannot exceed 50 percent of the year's tax liability. Unused credits may be carried forward for 15 years from the year earned.

The years that a company is under the corporate income tax moratorium do not count against the carry forward period for Jobs Tax Credits, meaning that a company can begin to utilize “banked” credits once the moratorium period ends.

The following map identifies South Carolina’s counties, their 2005 development designations, and the credit amount available per new job.



The following table illustrates the value of Jobs Tax Credits assuming creation of 100 net new jobs in a county designated as Tier 3.

Illustration of Estimated Jobs Tax Credits

Tier 3 County

Year	Credit	Number of Job Credits	Annual Total
1	Establish Qualification for Credit		
2	$3,500	100	$350,000
3	$3,500	100	$350,000
4	$3,500	100	$350,000
5	$3,500	100	$350,000
6	$3,500	100	$350,000
	Total Value		**$1,750,000**

Corporate Headquarters Tax Credit

In an effort to offset the cost associated with relocating or expanding a corporate headquarters facility, South Carolina provides a generous 20 percent credit based on the value of the actual portion of the facility dedicated to the headquarters operation or direct lease costs for the first five years of operation. The credit can be applied against either corporate income tax or the license fee. These credits are not limited in their ability to eliminate corporate income taxes and can potentially eliminate corporate income taxes for as long as 10 years from the year earned.

Eligibility for this credit is determined by meeting each of the following criteria:

- The company must create a minimum of 40 new full-time jobs that are engaged in corporate headquarters or research and development. Twenty of these jobs must be classified as staff employees. (Headquarters staff employees are executive, administrative, or professional workers performing headquarters related functions and services. An executive is an employee that spends 80% of their time on corporate-wide duties.)

- The facility must be the location where corporate staff members or employees are domiciled and where the majority of the company's financial, legal, personnel, planning, and/or other staff functions are handled on a regional or national basis.

- The facility must be the sole corporate headquarters within the region or nation with other facilities in that region that report to it. A region is defined as a geographical area comprised of either five states (including South

Carolina) or two or more states (including South Carolina) if the entire business operations of the company are performed in fewer than five states.

Enhanced Corporate Headquarters Tax Credit

The Enhanced Headquarters Credit equals 20 percent of the tangible personal property costs of establishing the headquarters. Eligibility for this credit requires that a company's tangible personal property meet the following qualifications:

- The property must be purchased for the headquarters facility or research and development facility, which is a part of the same project;
- The property must be used for headquarters- or research and development-related functions and services; and
- The property must be used to create a minimum of 75 permanent new full-time jobs performing headquarters- or research and development-related functions and services, 20 of which are staff level.

Additional qualifications state that:

- New headquarters-related jobs must have an average cash compensation level in this state of more than 1.5 times the state per capita income at the time the newly created jobs are filled, and
- An average employee compensation level for all employees in the state should be more than twice the state per capita income at the time the newly created jobs are filled.

This credit may be used to eliminate both a company's franchise tax and the corporate income tax. Unused credits may be carried forward for fifteen years.

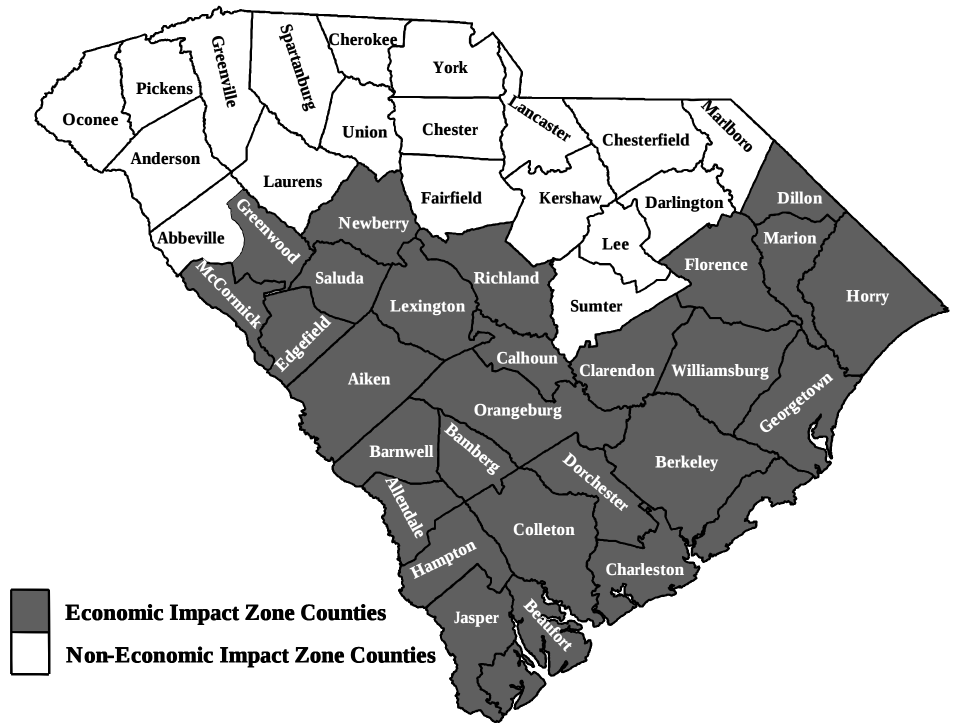
Economic Impact Zone Investment Tax Credit

South Carolina allows manufacturers locating in "Economic Impact Zones" a one-time credit against a company's corporate income tax of up to 5 percent of a company's investment in new production equipment.

The actual value of the credit depends on the applicable recovery period for property under the Internal Revenue Code. The following table illustrates the credit value for the various years outlined in the code.

Recovery Period	Credit Value
3 years	1%
5 years	2%
7 years	3%
10 years	4%
15 years or more	5%

This credit is not limited in its ability to eliminate corporate income taxes, and unused credits may be carried forward for up to ten years.



Child Care Program Tax Credit

South Carolina offers companies a credit against state corporate income tax, bank tax, or premium tax for childcare expenses. Companies may claim corporate income tax credits for capital and operating costs associated with establishing and operating a child care program. The maximum credit claimed may equal 50 percent of the incurred capital expenditure, not to exceed $100,000.

Additionally, the credit can be claimed for payments made directly to licensed or registered independent childcare facilities in the name of and for the benefit of an employee. The company may claim a credit equal to 50 percent of the childcare payments incurred by the employer, up to $3,000 per participating employee.

This credit may be used to eliminate 50% of a company's corporate income taxes after other credits are used, and unused credits may be carried forward for up to ten years.

Research & Development Tax Credit

In order to reward companies for increasing research and development activities in a taxable year, South Carolina offers a credit equal to 5 percent of the taxpayer's qualified expenditures for research and development in the state as defined in Section 41 of the Internal Revenue Code.

The credit taken in any one taxable year may not exceed 50 percent of the company's remaining tax liability after all other credits have been applied. Any unused portion of the credit can be carried forward for 10 years from the date of the qualified expenditure.

Community Development Tax Credit

South Carolina allows a 33% credit against tax liabilities to individuals, businesses, financial institutions, and insurance companies for contribution investments made to certified community development corporations. The credit cannot be claimed for in-kind services; donations of land; or business/bank loans.

The intent of the community development tax credits is to encourage private investment and working capital for these community-based entities, with the ultimate goal of creating partnerships through leveraging public sector incentives, private sector investments, and CDC-CDFI knowledge to build value in low-income communities.

South Carolina's Sales and Use Tax & Incentives

Sales and Use Tax

The sales and use tax rate in South Carolina is 5 percent. Some counties assess a local option sales tax and/or a capital project sales tax. Proceeds go toward infrastructure improvements or a rollback of property taxes.

The sales tax applies to all retail sales, leases, and rentals of tangible personal property, including the value of property purchased at wholesale and then used or consumed by the purchaser. The use tax is based on the sales price of such property.

Out-of-State Sales

South Carolina exempts sales tax on the gross proceeds of the sales of tangible personal property where the seller, by contract of sale, is obligated to deliver to the buyer, an agent of the buyer, or a donee of the buyer, at a point outside of the state, a carrier, or mails for transportation outside this state.

Out-of-State Purchases—Use Tax Credit

South Carolina provides a credit to the use tax for sales and use taxes on purchases of tangible personal property paid in another state, if the state in which the property is purchased and the sales and use are taxes paid allows substantially similar tax credits on tangible personal property purchased in this state. If the amount of the sales or use tax paid in the other state is less than the amount of use tax imposed in this state, the user shall pay the difference to this state.

Sales Tax Incentives

Sales Tax Exemptions

South Carolina supports new and expanding industry with a wide range of valuable exemptions to the sales tax (state and local). These exceptions include the following:

- Machinery and equipment used in the production of tangible goods process;
- Research and development machinery and equipment;

- Repair parts;
- Materials that will become an integral part of the finished product;
- Fuels used in the production process including electricity;
- Pollution control equipment;
- Packaging materials;
- Rail cars and locomotives; and
- Long distance telephone calls and access charges, including 800 services.

In addition, material-handling equipment is exempt from sales taxes for manufacturing or distribution projects investing $35 million or more.

Sales Tax Caps

South Carolina provides a $300 maximum sales tax cap on the sale or lease of aircraft, motor vehicles, motorcycles, boats, recreational vehicles, and other items.

South Carolina's Local Property Taxes & Incentives

Property Taxes

In South Carolina, only local government levies property taxes. There is no state tax on real or personal property. In addition, there is no tax, state or local, on inventories or intangibles in South Carolina. A company's property tax liability is a function of:

Property Value (less depreciation) X Assessment Ratio X Millage

Valuation and Assessment

The Department of Revenue determines the fair market value of a business' real (land and building) and personal property (machinery and equipment) to assure equitable local treatment. The fair market value is then assessed at rates established in the Constitution. For manufacturers, real and personal property are both assessed at 10.5 percent. The assessment ratio for all other businesses is 6 percent for real property and 10.5 percent for personal property. (For homeowners, primary residences are assessed at 4 percent.)

Depreciation

Depreciation rates are determined by the Department of Revenue based on the type of machinery and manufacturing process. For manufacturers, personal property is allowed to depreciate annually at a rate set in law according to the company's primary function (the most common depreciation rate is 11 percent per year to a level of 10 percent of the original property value). Please note that the Department of Revenue makes the final determination of the allowable depreciation.

Millage

The local millage rate is applied to the assessed depreciated value to determine taxes. Millage rates in South Carolina are site specific and set annually by local government. A mill is equal to $0.001.

Property Tax Exemptions

In support of business, South Carolina exempts three classes of property from local property taxation:

- All inventories (raw materials, work-in-progress, and finished goods);

- All intangible property; and
- All pollution control equipment.

Property Tax Incentives

5-Year Property Tax Abatement

By law, manufacturers (investing $50,000 or more) and distribution or headquarters facilities (investing $50,000 or more and creating 75 new jobs) are entitled to a five-year property tax abatement from county operating taxes. This abatement usually represents an offset of between 20 to 50 percent of the total millage, depending on the county. The abatement does not include the school portion of the local millage.

Please note that the tax abatement on investment is in effect for five years only. In Year 6, the abatement terminates, and the property is taxed at the millage rate in effect at that time.

South Carolina's Discretionary Incentives

In addition to the statutory incentives explained in the previous sections, South Carolina also uses discretionary incentives at the state and local level to address the specific needs of individual companies on a case-by-case basis.

20-Year Fee-in-Lieu of Property Taxes (FILOT)

Under this program, companies making substantial capital investments may negotiate a lower assessment ratio and stabilize millage rates for up to 20 years.

South Carolina law allows a county to negotiate with a company for a FILOT agreement if total capital investment is $5 million or greater. In Chester, Fairfield, Marion, Marlboro, McCormick, and Williamsburg Counties, the minimum investment required for a FILOT is $1 million. The FILOT replaces the 5-year abatement and is offered at the discretion of the county.

Companies may include both real and personal property under the FILOT agreement. The one exception to this rule is property that has been on the tax rolls in the state previously, including existing buildings. (This restriction is waived for companies investing $45 million or more in new equipment.)

30-Year Super Fee-in-Lieu of Property Taxes (Super FILOT)

A county may negotiate a Super FILOT with a 30-year agreement with a company that meets one of these qualifications:

- Create 200 new jobs and invest $400 million;
- Have an existing investment of $200 million with an additional $200 million in new investment; or
- Invest $600 million in the state.

Job Development Credit

South Carolina's Enterprise Program is substantially different from the state's other tax incentives because it does not reduce a particular tax liability; instead, it provides companies with funds to offset the cost of locating or expanding a business facility in this state. Representing actual cash contributions to the project, this incentive allows South Carolina to lower the effective cost of investment and positively contribute to a company's bottom line and profitability. The company realizes these benefits through the Job Development Credit, which it can collect for up to 10 or 15 years, depending on the development status of the county in which the company is located.

The Job Development Credit effectively uses the personal withholding taxes of new employees to reimburse qualifying, approved, companies that add value to South Carolina and the community in which they locate. These reimbursements are for eligible capital expenditures (land, building, site development, pollution control equipment, or infrastructure) associated with projects creating new full-time jobs that provide health care benefits for South Carolina citizens.

The South Carolina Coordinating Council for Economic Development administers this Program. Funds for the Job Development Credits come from state personal income tax withholding, which is paid by a company's employees. Employees receive a credit equal to the withholding used by the company; therefore, there is no financial impact on employees. No company will be allowed to claim credit on any employee whose job was created in this state before the taxable year in which a company was approved. In addition, no company will be allowed to collect more than $3,250 per employee per year.

To verify capital expenditures and qualifying jobs, a company is required to make its payroll books and records available for inspection by the Coordinating Council and Department of Revenue. Businesses receiving refunds in excess of $10,000 annually are required by law to furnish an audited report prepared by an independent, certified public accountant itemizing the sources of and uses of monies refunded to the company. This report must be filed by June 30 following the calendar year in which the refunds are received.

Eligibility Requirements

To be eligible to apply for the Job Development Credit, a company must:

- Meet the requirements of a manufacturing/processing, corporate office, warehouse/distribution, research and development, tourism, qualifying service-related facility, etc., as defined in the statutes for the Jobs Tax Credit;

- Provide full-time employees with a benefits package that including health care; and,

- Pay a $4,000 application fee, receive a positive cost/benefit certification (the project is of greater benefit than cost to the state) from the Coordinating Council, and pay a $500 annual renewal fee.

Please note that the Coordinating Council may only allow companies to collect Job Development Credits on those jobs that pay wages that compare favorably to wages paid for similar jobs in the region.

The Revitalization Agreement

Once the state and an eligible company have reached agreement on the appropriate incentive, both parties will sign a Revitalization Agreement. The Revitalization Agreement is a contract with the state guaranteeing the company's participation in the program, assuming it stays current with state taxes and meets its commitments on job creation and investment.

- Establishes mutually agreeable investment and employment minimums that the company must meet and **maintain** in order to claim a Job Development Credit;

- Sets a date by which the project's investment and employment will be completed (must be within three years of the date of the agreement); and

- Identifies a maximum reimbursement amount.

Funds for Retraining Available for Existing Industry

Eligible businesses may negotiate with the Coordinating Council for a refund of up to $500 per production employee per year for retraining; the retraining must be necessary for the business to remain competitive or to introduce new technologies. “Production employee” includes employees who are engaged in the actual making of tangible personal property or who are directly involved in the manufacturing, processing, operation, or distribution process. Please note that companies will not be allowed to claim Job Development Credits and Retraining Credits from the same employee.

The retraining must be approved and coordinated by the technical college(s), under the jurisdiction of the State Board for Technical and Comprehensive Education, serving the approved business. Refunds per eligible employee under this section may not exceed $500 in a year, nor $2,000 over five years. The company must match (on a dollar-for-dollar basis) the employee's withholding share used for the training. The total amount is paid to the technical college providing the training. In order to collect funds for retraining, a company must submit an application (with a $500 application fee) to the Coordinating Council.

South Carolina's Center for Accelerated Technology Training

#1 Ranked Training Program in America
Expansion Management, October 2003

A Customized Worker Training Program

The Center for Accelerated Technology Training (CATT) program is South Carolina's unique and outstanding employment training resource for companies locating or expanding in the state. The State Board for Technical and Comprehensive Education (TECH) operates the program and oversees the statewide Technical Education College System. CATT recruits, screens, and trains individuals for specific assignments with new businesses and industries as well as expanding businesses. With the exception of very specialized areas, the training is provided at no cost to the company. The program is funded entirely with state money and imposes no target populations.

The CATT program is one of the oldest start-up training programs in the nation and has been used as a model elsewhere. Since its inception in 1961, the program has trained workers for nearly 1,600 firms. CATT's extensive start-up training expertise developed over the years is unmatched in any other state.

Training is usually short-term and is provided prior to opening day or expansion. This assures a trained workforce ready to go to work when the facility opens. The training programs are usually located near the facility and often conducted at the facility itself, if feasible. Each program is customized to a company's unique specifications.

Flexibility and Quality

CATT is highly regarded by South Carolina employers for the quality of training and the skilled, dependable workers it produces. The success of the program is based squarely on its flexibility. Program administrators pride themselves in their ability to develop customized programs that suit the specific needs of clients. TECH's commitment to quality education has not gone unnoticed; the U.S. Department of Labor recognized TECH as a model for technical education systems in the United States. One reason cited was TECH's involvement and dedication to training prospective employees for every major industry locating in the state.

TECH'S Commitment to Industry

When an employer decides to locate or expand in the state, CATT makes certain that the company will have the trained workers needed when the facility starts operation. Some of the major steps involved in the CATT process include the following:

- CATT staff members meet with the company and analyze the jobs and skill levels needed.
- Representatives of CATT, in partnership with South Carolina Jobs Service and Employment Security Commission, begin recruiting prospective workers. Advertisements are placed with various area media completely at the expense of the state.
- Training materials such as manuals, videotapes, slides, and charts are developed and tailored to the company's processes. CATT has a media support center capable of producing these types of instructional materials.
- Instructors—either TECH staff or the employers' staff—are chosen and trained in instructional techniques, if necessary. The instructors are paid by CATT.
- The training facility is prepared and equipment obtained.
- Classes are planned and a lead-time schedule is prepared. The schedule is designed to have training completed approximately two weeks prior to hiring needs.
- The training courses are conducted to the standards and requirements of the company. During the training, any trainees who do not meet the required standards are removed from the program. In addition, there is no obligation on the company to hire the trainees or for the workers to accept an offer of employment at the end of training. Please note that trainees are not paid for attending the training.
- Counseling and training in good work habits is provided.
- If needed, the pre-employment training may be followed by a period of on-the-job training after the trainee has been hired.
- When the company is ready to expand or add more employees, CATT is available to assist in the training of the new employees. There is no limit to the number of times CATT may be used.